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SUBJECT: PARAGUAY: SCENE-SETTER FOR 3+1 MEETING

¶1. (SBU) Summary. Paraguay has taken serious measures to address its reputation as a haven for illicit activity including as regards Ciudad del Este (CDE). It has created special units, often with assistance from and in cooperation with the U.S. including in the context of our MCA Threshold Program with Paraguay. The judicial sector, the police and customs remain the weakest links in the law enforcement realm, however, and illicit activity including money laundering, contraband, IPR violations, and drug and arms trafficking remain widespread in CDE. Paraguay has ratified all 12 UN counter terror treaties but its anti-money laundering legislation is deficient and it has not adopted counter terrorism legislation. Paraguayan authorities are concerned about money laundering that occurs out of the TBA, including possible terrorist financing but will be reluctant to air those concerns over Brazilian objections. The MFA's Head of the Office of Special Affairs Min. Victor Hugo Pena is only into his second month as the director of this newly created office but has signaled a desire to discharge his responsibilities as the Head of the Paraguayan delegation seriously. End Summary.

¶2. (SBU) Paraguay has a well-deserved reputation as the weakest link in combating the wide range of illicit activities that occur in the TBA. Corruption at multiple levels undercuts serious law enforcement efforts. Nevertheless, Paraguay has taken serious steps to address its institutional deficiencies creating special units, principally in Customs and the Ministry of Industry and Commerce (MIC) to investigate more effectively IPR violations and customs fraud. The MIC's Specialized Technical Unit (UTE) in particular has made a number of significant seizures of counterfeit products. These units receive significant assistance from the USG in the form of INL funds or the MCC Threshold Program.

¶3. Paraguay's Anti-Money Laundering Secretariat (SEPRELAD) has also received technical assistance and equipment from the U.S. Paraguay has subscribed to all 12 UN counter terror conventions but its anti-money laundering law is lacking in that it does not allow for prosecution of money laundering as an autonomous crime and Paraguay does not have counter terrorism legislation. Paraguay seeks to meet its legislative obligations through provisions in a series of three bills. UNCTC Executive Ruperez approved of the draft legislation text when he visited in July 2007. The first bill establishing money laundering and terrorist financing as crimes and setting out the consequent penalties was delivered to Congress in October. The bill on procedural tools for the prosecution of these crimes remains under arduous debate before a Legislative Reform Commission and could face much of the same when it is submitted to Congress. The law establishing SEPRELAD's regulatory authorities has been

drafted but not yet submitted to Congress pending movement on the first bill. Paraguay's SEPRELAD could face suspension from Egmont should this bill not be adopted before June. In the absence of an effective money laundering law, Paraguay has prosecuted three alleged terrorist financiers for tax evasion.

¶4. (SBU) Paraguay's Anti-Drug Secretariat represents the single most effective law enforcement body in Paraguay. Working closely with the U.S., it has effectively targeted Brazilian trafficking groups that are run mostly out of Pedro Juan Caballero (PJC) on Paraguay's northern border with Brazil. Within the last six months, SENAD has made a number of significant arms seizures with evidence signaling links to Brazil's PCC and Colombia's FARC. While these weapons were seized in PJC and Asuncion, arms and drug trafficking are also thought to occur out of CDE. Presently, SENAD is hard pressed to meet challenges in that region for lack of resources.

¶5. (SBU) Paraguay's delegation will be headed by Min. Victor Hugo Pena the Director of the MFA's newly created Office of Special Affairs which addresses Paraguay's interests and obligations as they relate to counter terrorism, drug trafficking, TIP, etc. Pena brings a background in Paraguayan politics and has signaled seriousness about Paraguay's more effectively addressing terrorist financing concerns in the TBA. When Pena met with POL Chief in November, he discussed the settlement Bank of America reached with Manhattan district prosecutor Robert Morgenthau in September to pay a fine of approximately \$7 million when it acknowledged its lax operations had allowed up to \$3 billion dollars to be laundered out of the TBA. We should be prepared to discuss this case and others as appropriate as evidence U.S. legal authorities are acting on concerns as relate to terrorist financing in the TBA.

¶6. (SBU) Paraguay has signaled concern about potential terrorist financing occurring out of the TBA but will be reluctant to speak to this issue publicly. Irrespective of our success in forging political consensus on a public statement on terrorist financing in the TBA we should shore up agreement that the widespread illicit activity that occurs there opens the door to terrorist financing. We should also strengthen cooperation on the ground at the local level and between governments in undertaking investigations and prosecuting cases. To the extent we can speak to how this effort redounds to Paraguay's benefit in fighting corruption, promoting economic development and countering crime and insecurity, Paraguay will likely be predisposed to be supportive.

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